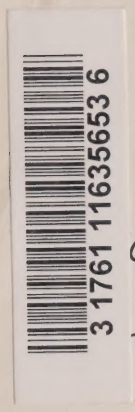

THE CANADIAN SHIPBUILDING, SHIP REPAIRING AND ALLIED INDUSTRIES:

WHERE DO WE GO FROM HERE?

FOLLOW-UP SUBMISSION

TO THE

ROYAL COMMISSION

ON THE

ECONOMIC UNION

AND

DEVELOPMENT PROSPECTS

FOR CANADA

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July 26, 1984

THE CANADIAN SHIPBUILDING, SHIP REPAIRING AND ALLIED INDUSTRIES: WHERE DO WE GO FROM HERE?

Since our initial presentation to the Royal Commission on the Economic Union and Development Prospects for Canada on December 12, 1983, the House of Commons passed Bill C-16, the Customs and Excise Offshore Application Act, on May 23, 1984. This bill, which was given Royal Assent on June 14, 1984, legitimizes the June 29, 1983 Ways and Means Motion referred to in our brief.

Bill C-16 can be a tremendous boost for the Canadian shipbuilding, ship repairing and allied industries. But the loopholes in federal government policies that were identified in our Royal Commission brief remain, negating the positive aspects of this legislation and preventing a meaningful recovery for the industry. To date none of the recommendations contained in our brief have been approved and the industry is currently struggling along at less than half capacity.

CSSRA yards are essentially surviving on new federal government shipbuilding orders at this time. At the end of the first quarter of 1984, 25 vessels totalling 147,000 gross tonnage were under construction or on order. Of these, 17 vessels of 53,200 GT were federal government contracts. There were only eight commercial vessels of 93,800 GT under construction or on order on March 31, 1984 -- and this included two ferries for a crown corporation and one for a provincial government totalling 17,300 GT. Only two new orders of 1,300 GT were placed in CSSRA yards during the first quarter of 1984, while eight vessels of 13,361 GT were imported into Canada. In March 1982, employment in member yards was over 14,000, but it has been dropping ever since. By the end of April, 1984, employment had dropped to 6,476, down over 25 percent from a year before.

Federal government orders under the Canadian Patrol Frigate (CPF) program, the Special Recovery Capital Projects (SRCP) and the passage of Bill C-16 will only help rejuvenate the industry if loopholes in policies that now exist are closed. Once closed, we are confident that the Canadian shipbuilding, ship repairing and allied industries can play a positive role in Canada's economic growth and employ, including the generating effect, over 45,000 persons. But government action is urgently needed to realize this goal.

The challenge is to develop a positive environment for the Canadian shipbuilding, ship repairing and allied industries. The choices outlined here, as in our initial brief, must be addressed if these industries are going to play a constructive role in Canada's future.

Review of CSSRA Recommendations to Royal Commission on the Economic Union and Development Prospects for Canada

1) Petroleum Incentives Program (PIP) Grants:

PIP grants pay up to 80 percent of the operating costs for exploration work on eligible vessels and rigs, including customs duty. Leasing is considered an operating cost, but capital costs do not qualify for PIP grants. So many oil companies lease existing foreign-built equipment to take advantage of these generous grants rather than build in Canada. Canadian taxpayers are actually subsidizing others to meet our offshore requirements and then helping to pay the price of importing this equipment into Canada.

The CSSRA recommends that PIP grants no longer be based on Canadian ownership. The grants should be based on Canadian content. PIP grants should only be available to companies that source in Canada or maximize Canadian content.

2) Temporary Entry Duty Rates:

The temporary entry of foreign-built vessels into the Canadian coasting trade, when Canadian-built vessels are not available, occurred in record numbers during 1983. Last year 81 foreign-built and foreign-flagged vessels were issued temporary entry permits by the Canadian Transport Commission. These included 21 offshore vessels and seven drill rigs.

Temporary entry permits are easily obtained and the duty rate is only 1/120th per month of the value of the ship. With such a low duty, it is

currently more attractive to exploit the temporary entry rate rather than build new equipment in Canada.

The CSSRA recommends that temporary entry duty rates be at least doubled to 1/60th a month and a defined time frame, such as 90 days, be required between when application is made for temporary entry and when the vessel is needed -- except in emergency situations.

3) Fishing Vessels Over 30.5 m:

For reasons best known to the government, duty on imported fishing vessels over 30.5 m was not included in the January 6, 1983 policy announcements and subsequent Ways and Means Motions of June 29, 1983 and December 7, 1983, or in Bill C-16. Although considerable pressure was put on the government to remove this exemption, all requests have so far fallen on deaf ears. Former Minister of State for Finance Roy MacLaren (now Revenue Minister) said a special study was underway to determine whether duty should apply to these vessels.

There is an estimated $5 billion (in 1982 dollars) in replacement costs over the next 10 years for fishing trawlers on the East Coast. If the government dropped this duty-free exemption, Atlantic Canada's shipyards would likely build many of these vessels. Furthermore, the exemption should be removed because we are now in the ironic situation where it is possible to import an entire fishing vessel duty-free while imported component parts for a Canadian-built fishing trawler are subject to duty.

The CSSRA recommends that duty be applied to foreign-built fishing vessels over 30.5 m entering Canada.

4) Concessionary Financing for Domestic Shipowners:

Export orders placed in Canada are eligible for subsidized financing through the Export Development Corporation (EDC) while domestic shipowners do not qualify for these reduced rates. With concessionary

financing and other direct and indirect aid available abroad, the greatest number of vessels and most tonnage ever imported into Canada occurred during 1983. A total of 38 vessels of 198,743 GT were imported into Canada.

If Canadian owners were eligible for concessionary financing at EDC rates, we are confident that increased orders would accrue to Canada, creating employment for the domestic shipbuilding and allied industries. We know of no other shipbuilding nation that only subsidizes export orders and not domestic orders.

The CSSRA recommends that concessionary financing, similar to rates available through EDC, be available to domestic shipowners.

5) Shipbuilding Industry Assistance Program (SIAP):

As part of its shipbuilding policy program of January 6, 1983, the federal government announced it would phase out the SIAP on June 30, 1985. But due to the dearth of commercial orders in the past few years, very few SIAP funds have been committed for new construction.

The CSSRA recommends that the SIAP termination date of June 30, 1985 be extended two years to June 30, 1987 to obtain maximum benefits from this program.

VESSELS UNDER CONSTRUCTION OR ON ORDER IN MEMBER YARDS BY TYPE AS OF MARCH 31, 1983 - 1984

(Thousands of Tonnes)

pe of essel	1983 (Mar 31)			1984 (Mar 31)		
		TONNAGE			TONNAGE	
	No.	Gross	Comp.	No.	Gross	Comp.
overnment	--	---	---	17**	53.2	221.9
nkers	--	---	---	--	---	---
rgo:						
Barge	--	---	---	--	---	---
Others	1	0.4	0.5	--	---	---
lk Carriers	5	119.9	105.3	3	75.2	65.1
gs	2	1.7	0.9	1	0.4	2.0
rries	3	16.5	41.1	3	17.3	43.3
shing	--	---	---	--	---	---
ffshore Supply Vessels	6	17.3	45.6	1	0.9	2.9
ffshore Drilling Rigs and Offshore Structures	3	35.0	105.1	--	---	---
iscellaneous	1*	1.6	4.8	--	---	---
TAL	21	192.4	303.3	25	147.0	335.2

Comprises 1 data collection vessel.

* Comprises 6 patrol frigates, 6 type 1100 navaids tender/light icebreakers, 4 Fisheries and Oceans vessels and 1 type 1050 navaids tender/light icebreaker.

otes:
1) Because of rounding, totals are not always exactly the sum of the parts.
2) Government refers to Federal Government Departments.
3) Compensated tonnage is the gross tonnage of a vessel adjusted to reflect manhours required in construction according to the O.E.C.D. formula and in some instances for specialized Canadian vessel types. From 1981, the factors have been further revised for Arctic Class vessels and barges.
4) Data for 1983 have been revised.

ource: Members of the Canadian Shipbuilding and Ship Repairing Association

FOREIGN BUILT VESSELS REGISTERED IN CANADA BY TYPE
1980 - 1983 AND 1984 JANUARY - MARCH

Type Of Vessel	1980		1981		1982		1983		1984 (Mar 31)	
	No.	Gross Tonnage	No.	Gross Tonnage	No.	Gross Tonnage	No.	Gross Tonnage	No.	Gross Tonnage
Tankers	--	---	1	1,182	--	---	2	1,454	--	---
Cargo:										
Barge	13	38,333	10	52,653	1	8,235	4	13,652	1	464
Other	6	23,977	9	44,065	2	9,643	3	11,795	--	---
Bulk Carriers	--	---	--	---	--	---	3	64,644	--	---
Tugs	3	1,359	1	560	4	3,960	--	---	1	247
Ferries	--	---	--	---	1	280	1	147	--	---
Fishing	8	6,773	3	1,539	5	3,321	--	---	--	---
Offshore Supply Vessels	--	---	6	9,420	7	22,011	16	36,406	5	11,980
Offshore Drilling Rigs and Offshore Structures	--	---	--	---	--	---	5	68,217	--	---
Miscellaneous	1	107	5*	34,292	2**	1,300	4***	2,428	1****	670
Total	31	70,549	35	143,711	22	48,750	38	198,743	8	13,361

* Includes 2 survey vessels, 1 drydock, 1 research vessel and 1 wood yacht.
** Includes 1 aluminum yacht, 1 steel research vessel.
*** Includes 2 steel yachts, 1 survey vessel and 1 Arctic storage tanker.
**** Includes 1 steel rescue vessel.

Source: Transport Canada "Steam and Motor Vessels Registered in Canada"

CANADIAN SHIPBUILDING, SHIP REPAIRING AND ALLIED INDUSTRIES:

THE CHALLENGE, PROBLEMS AND SOLUTIONS

SUBMISSION
TO THE
ROYAL COMMISSION
ON THE
ECONOMIC UNION
AND
DEVELOPMENT PROSPECTS
FOR CANADA

Canadian Shipbuilding and Ship Repairing Association

December 12, 1983

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THE CSSRA

To begin with, a brief word about the Canadian Shipbuilding and Ship Repairing Association (CSSRA). It was founded in 1944. Its objectives are the preservation, maintenance and development of the Canadian shipbuilding, ship repairing and allied industries for the advancement of the industrial, technological, economic, social, defence and sovereign interests of Canada.

Through the activities of the various groups and committees - e.g. allied industries, technical, personnel and financial sections and productivity committee - the CSSRA promotes the exchange of information and discussion for the advancement of the industry. A major event - the Annual Technical Conference - attracts international attention and is usually attended by over 800 persons. Meetings are held across the country on a regular basis.

Our total membership is 89 organizations (list attached at Annex A) consisting of 23 shipbuilding and ship repair firms across the country who account for 97 percent of all ships over 100 tons built in Canada. These companies are over 95 percent Canadian-owned. The association also has 66 members that supply goods or services with substantial Canadian content to the industry. These range from steel and diesel engines to high technology electronic equipment and specialized consultant services. There are members in every province except Saskatchewan.

Total value of CSSRA shipyard and CSSRA allied industries production was $819,509,000, $950,482,000 and $1,100,146,000 in 1980, 1981 and 1982, respectively. In recent good years, total employment in the shipbuilding industry in Canada has been at the 16,000 level and it is reliably estimated that 5,000 are employed in marine work in the allied industries. Including the generating effect, shipbuilding normally accounts for over 50,000 jobs in the Canadian economy.

THE CHALLENGE

This paper outlines the challenge facing the Canadian shipbuilding and allied industries and examines the choices we must make to guarantee that Canada's future includes an effective industry.

During the past 40 years, we have witnessed the virtual elimination of the Canadian merchant marine and have seen Canada drop to a minor shipbuilding nation of the world. We are not advocating that Canada should attempt to regain its former position as the third largest shipbuilding nation with the third largest merchant marine, but we are calling for a fair opportunity to design and construct vessels and other floating equipment specializing in Canadian requirements. This specialization can lead to export opportunities. The challenge can only be met by making the right choices that lead toward a competitive industry. This goal will only succeed with the support of government, industry and labour.

The government must review its current policies in light of increased inroads by foreign shipbuilders most of whom are heavily subsidized by national governments interested in the Canadian market.

Federal government support during 1983 has been significant. The January 6 announcements and tabling of the June 29 Ways and Means Motion relating to customs application on the continental shelf will help strengthen the domestic shipbuilding industry. Announcements of the construction of six navy frigates under the Canadian Patrol Frigate Program (CPF) and 14 ships for Coast Guard and Fisheries and Oceans under the Special Recovery Capital Projects (SRCP) amount to over $4 billion worth of government shipbuilding and allied industry work. These programs are vital to the industry, but loopholes in regulations remain that seriously weaken the positive programs and policies. The loopholes must be closed if the challenge is to be effectively met.

In addition to our traditional markets for coastal, fishing and inland traffic, the focus on Canadian commercial shipbuilding activity between now and the turn of the century will be for vessels and floating equipment required in the frontier regions of the Arctic and east coast offshore. Most of the so called "Canada Lands", i.e. offshore and Arctic, vessels are currently being supplied from foreign sources. We cannot reverse this trend unless we make it more attractive to source in Canada. To do this, we must have the kind of support available to our competitors and aggressively exploit this support. This is the challenge.

We can do this without heavy subsidization in the form of massive direct and indirect state aid. It can essentially be done by simply closing back doors that

remain open in government taxation policies and adjusting or extending existing programs.

Canada is a nation surrounded by three oceans and shares the largest body of fresh water in the world. We have a proud shipbuilding tradition. We have a continuing and growing need for ships and floating equipment for domestic transportation, resource exploitation, national defence, coast guard, fisheries control and other governmental activities. We are a major trading nation and consequently a major user of marine transportation. We have the resources, the manpower and the will to do the job. The need is there. The choice is ours.

WORLD SITUATION

The recession has taken its toll on global shipbuilding orders. Total world output in 1982 dropped to less than 17,000,000 GT, or half the level it was during the early 1970s. Traditional shipbuilding nations in northern Europe have been replaced by cheaper priced Third World competitors in South Korea, Brazil and Taiwan. Over the last decade, South Korea has jumped from 23rd to second place in world shipbuilding predominance, now accounting for eight percent of all orders. Taiwan went from 19th to fourth place while Brazil moved from 18th to sixth place. The importance of northern European yards has waned in comparison, with Britain supplying only three percent of all new shipbuilding orders, down from 30 percent in 1956.

Japan remains the world leader in shipbuilding, attracting 49 percent of all new orders during 1982, or 8,160,000 GT. South Korea is well behind in second place, with eight percent of all 1982 world orders, or 1,410,000 GT.

At the end of the first quarter of 1983, the world shipbuilding orderbook stood at 26,600,000 GT, compared to 133,400,000 GT in 1974. Industry analysts suggest that an upturn will not likely occur until well into the second half of the 1980s.

The past decade has seen the decrease of the oil tanker in importance and an increase in the bulk carrier vessel type. Chemical carriers account for five percent of all world construction, while overall offshore equipment production has also risen.

In an effort to retain a percentage of world shipbuilding, many yards, especially in Europe, are specializing in sophisticated and technologically advanced vessels. South Korea is also aggressively moving into the specialized field in its drive to top Japan as the world's leading shipbuilding nation. While Japan has closed some of its older yards, virtually all of the major, modern facilities are still in operation with reduced work forces. These yards are ready to increase their output in a minimum of time. All indications are that the Japanese have no intention of relinquishing their leadership role. Last spring, with government-inspired support, Sanko Steamship ordered 111 bulkers from domestic yards. This was taken as confirmation that the Japanese intend to continue to dominate in shipbuilding, as well as to maintain their important position in world shipping.

It is well to remember that much of Japan's post-war industrial success is based on the conscious decision to develop shipbuilding. The Japanese realized that this industry requires not only massive amounts of steel, but also a wide range of manufactured components from huge diesel engines to sophisticated electronic equipment. It is a labour intensive industry providing employment in an age of decreasing employment in manufacturing generally. As a country of islands and a trading nation heavily dependent on shipping for both internal and external trade, Japan has a large domestic requirement for ships and shipping. It is not surprising that Japan decided long ago, and continues to maintain, that shipbuilding is essential to its national interests.

The South Korean situation is similar to that of Japan's in the post-war period. Also an insular country, dependent on trade, shipping, and industrialization, South Korea is emulating Japan and much of its manufacturing success has been based on the astonishing expansion of their shipbuilding industry. In 1970, South Korea launched no merchant tonnage. By 1974, 445,000 GT of merchant shipping were launched there. The figure soared to 1,531,000 by 1982. In both Japan and Korea, supportive government policies have been the key to success in shipbuilding.

POST-WAR CANADIAN SITUATION

Canada's situation is, in some respects, more like Japan's than South Korea's. Although Canada is a continental country, we have the most extensive coastline in the world, and the St. Lawrence-Great Lakes system provides shipping routes into the industrial heartland of North America. The extensive inland waterways, coastline and the economic zone of the surrounding sea require a variety of fishing, cargo and ferry vessels, as well as resource development ships and floating equipment. As a trading nation, we are heavily dependent on deep sea shipping, particularly for the exportation of natural resources.

So the similarities with Japan are evident. The differences are evident too. When Japan was developing its marine industries in the early post-war period, Canada was doing the opposite and the Canadian merchant marine was dismantled and sold-off.

Shipbuilding had a roller-coaster ride during the post-war years in Canada until the opening of the St. Lawrence Seaway. The maritime unions forced the government to stop the free entry of British Commonwealth-built and manned ships into the coasting trade in the St. Lawrence and the Seaway system. The large modern fleet of bulkers and self-unloaders built in Canada since the 1960s was made possible because of the reservation of the Seaway for "coasting" to Canadian-registered vessels. Commonwealth-built ships could continue to be brought into Canadian registry duty-free, but Canadian naval architects and shipyards developed "lakers" and "self-unloaders", which were superior to those procurable in Commonwealth countries and elsewhere. The Dominion Marine Association, comprising virtually all the Seaway shipping operators, now has 155 ships with total tonnage of 2,080,464 GT in its fleet of which all but 28 ships with a tonnage of 355,321 GT are Canadian-built. Efficient, modern shipyards and allied industries have thus developed from the requirements of our inland waterway. Profitable, domestic shipping companies have provided employment to many Canadians, as well as an efficient transportation system for a whole range of Canadian natural resources and products.

The Canadian coastal, inland and fishing fleets have provided a continuing flow of ship repair work in all regions of the country. New dry docks on both

coasts helped firms to obtain more foreign ship work and in 1981 ship repair production reached a high of $313,700,000. Unfortunately, the shipping decline of 1982 resulted in a sharp drop in ship repair work in 1983. However, the industry now has good capacity for ship repairs, with the exception of dry docking for very large crude carriers (VLCC's), i.e. over 90,000 DWT, on both coasts and 1,000 ft. lakers and other ships on the Great Lakes. When the world economy improves, we can expect a rise in Canadian ship repair activity.

On the west coast, a competent, progressive and innovative shipbuilding and allied industry was developed to meet the special needs of the coastal shipping, ferry, fishing and forest industries. The self-dumping and self-loading log barges, with a capacity of carrying 10,000 tons of lumber, are a special success story. Much of the British Columbia success was due to the fact that most west coast fishing vessels are under 100 ft. in length and are therefore protected by the 25 percent customs tariff on fishing vessels under that length. Consequently, almost all fishing vessels on the west coast were built in B.C. shipyards. Fishing and forestry provided a solid base for the development of a comprehensive, local marine supply infrastructure.

The east coast shipbuilding experience, especially for allied industries, is in sharp contrast to that of the west coast. Most trawlers for the offshore fishery are over 100 ft. in length and can be brought into Canadian registry duty-free. Consequently, much of the existing trawler fleet was sourced abroad. Duty must currently be paid on imported components for fishing vessels built in Canada, whereas the entire ship can be imported duty-free. The CSSRA has been protesting this absurd situation for a decade or so without success.

Duty is now applicable on equipment used for resource development in the economic zone to the extent of the continental shelf, but fishing trawlers continue to be allowed in duty-free. It is not surprising, therefore, that the east coast fishing trawler industry has languished and allied marine industries have not developed to the same extent as those on the west coast. Notwithstanding a distinct handicap for supplying the important fishing industry, east coast shipyards have had many successes in building for the offshore and in building tankers for refined petroleum products.

During the 1970s and in 1980, shipyards in all regions of Canada were successful in obtaining export orders with the assistance of Export Development Corporation (EDC) financing and subsidies under the Shipbuilding Industry Assistance Program (SIAP). Exports to many areas of the world for new construction accounted for $260 million in 1982 alone. Foreign repair work was over $41 million for total exports of over $300 million in 1982. However, with the deepening of the world shipbuilding crisis in the last two years, export orders have tumbled. This is not surprising when it is considered that Canadian assistance was sharply cut in 1980, whereas assistance provided abroad has generally been maintained or even increased.

The federal government, in its January 6, 1983 announcement eliminating some of the loopholes in customs duty regulations and extending the customs zone beyond the 12 mile limit to the extent of the continental shelf, recognized that shipbuilding is an important, indeed vital, Canadian industry in support of Canada's sovereignty, regional and industrial development, economic and social objectives. The policies announced on January 6, although adequate to assure a viable shipbuilding industry over the long run, require the modification of some federal regulations which now run counter to, or undermine, these policies. In addition, some consideration must be given to strengthening the policies in the face of the current world-wide shipbuilding crisis.

CANADIAN SITUATION IN 1983

At the end of September, 1983, there were 23 vessels, representing 165,400 GT, either under construction or on order from Canadian shipyards (see Table 1). At the same time last year, there were 33 vessels, or 221,200 GT, either under construction or on order. The 1983 figures were significantly increased on September 30 when the government awarded contracts for the construction of six new navaid icebreakers and three Fisheries and Oceans vessels under the SRCP program. These government orders represent half of the 18 new orders placed in Canadian shipyards during the first nine months of this year, or 26,148 GT, of the total 32,199 GT. In June, 1983, the government also awarded contracts for construction of six navy frigates, but delivery of the lead vessel will not occur until February 1989.

Timely government orders are now keeping several domestic yards in new construction. However, all yards are operating far below normal levels of activity and those yards which did not receive orders under the SRCP program are now without new work, or will be in a few months time. More layoffs can be expected at these shipyards. Commercial orders have virtually dried up, although the Canadian domestic demand for new ships and floating equipment has not. This demand is being filled from abroad. Between July 1, 1980, when the Shipbuilding Industry Assistance Program (SIAP) was reduced from 20 to nine percent, and August 31, 1983, only 51 commercial orders were received by domestic shipyards while 100 foreign-built vessels were registered in Canada (see Graph 1). In tonnage terms, 91,956 GT were sourced in Canada, while 406,792 GT came from abroad (see Graph 1B).

This depressed situation is also reflected in employment at CSSRA yards. In March 1982, employment was over 14,000 but by August 1983, it had dropped to under 6,000 (see Graph 2), the lowest recorded level since 1939. It rose slightly in September to 6,821. Employment on new construction dropped from 8,996 in June, 1982 to 2,754 in October, 1983.

OPPORTUNITIES AND OBSTACLES

In a 1981 study, Canadian shipbuilding requirements between 1982-1991 were estimated at 400 vessels and floating equipment, worth $33 billion in 1981 dollars. A more recent review of this study indicated that the time frame has slipped about three, perhaps more, years and that the more likely scenario is for a requirement of about two-thirds of that identified in 1981. Nonetheless, the general validity of the 1981 study is reconfirmed. Most of the equipment will be required in the Arctic and east coast offshore areas. These requirements hold the key to the future prosperity of the Canadian shipbuilding industry. Specially designed and constructed equipment will be needed to meet the unique Canadian environmental challenge. Rigs, supply vessels and tugs will have to be capable of withstanding the harsh Arctic cold and ice or east coast deep waters and strong ocean currents.

Canada has already become a world leader in the development of icebreaker technology. With the need for year-round shipping to Montreal and

over immense Arctic regions, it was essential that Canada develop this expertise.

Although most of the design work for the Arctic is being done in Canada, the majority of the actual shipyard work is currently carried out in countries such as Japan and South Korea, where cheaper labour costs, favourable tax structures and different social orders make it more attractive to source in those countries than in Canada. The situation facing the shipbuilding industry is similar to that of the automobile industry. The government has come to the rescue of the automobile industry by placing quotas on foreign imports, but no similar assistance has been forthcoming to the shipbuilding industry.

As mentioned earlier, the government took positive steps earlier this year to strengthen the Canadian shipbuilding industry. It announced on January 6 the extension of the customs zone to the continental shelf limit and placed a uniform duty of 25 and 20 percent on all foreign-built vessels and rigs imported into Canada, except fishing vessels over 100 ft. in length. These measures took effect on June 30, 1983, following the tabling of a Ways and Means Motion in the House of Commons.

When the world economy recovers, these measures will result in significant shipyard orders, however under existing circumstances and conditions, the present dearth of commercial orders to Canadian shipyards will likely continue beyond the completion of most of the SRCP projects and in any case, several yards are now facing imminent shutdown. Hence, more immediate action is also required including the elimination of a number of practices and regulations that now weaken or nullify the positive customs measures announced on January 6.

PROBLEMS AND SOLUTIONS

The temporary entry duty rate of 1/120th per month of the value of the ship was established when interest rates were approximately three percent. Although interest rates have recently soared to as high as five times that rate, the temporary entry duty remains at 1/120th per month. These low temporary entry rates actually work to the advantage of leasing companies because the funds that should be paid for permanent entry, or a more realistic temporary entry rate,

can be invested elsewhere at current market rates. Also, temporary entry rates decrease as the vessel depreciates because the rate is based on the market value of the vessel. This has resulted in record temporary entries during 1982 and 1983, (see Table 2), thus depriving Canadian shipyards of much needed work. The temporary entry rate must be brought into line with the permanent entry rate to more accurately reflect today's financing charges.

A prescribed time period, such as 90 days, should be required following temporary entry application and when a vessel is needed. There is currently no time limit and some applications are made for temporary entry the same day a vessel is scheduled to begin operations. This tactic results in the application receiving only cursory investigation by Canadian Transport Commission (CTC) officials and can lead to the exclusion of Canadian-built vessels from participating in the coasting trade. If there was enough time for a thorough search, Canadian-built ships would likely play a larger role in the coasting trade and in the offshore.

PIP grants are currently available to oil companies involved in exploration programs and up to 80 percent of the operating costs are recoverable. Leasing, and the payment of duty on the importation of foreign-built equipment, are considered operating costs. But capital investment is not eligible for PIP grants. So rather than place new orders in Canada, oil companies are looking to lease and take advantage of these generous grants. Only two of 16 rigs now operating in the east coast offshore area were built in Canada. All seven dredgers operating in the Beaufort Sea this past summer were built in the Netherlands and most, if not all, of the supervisory crew and technicians were foreigners.

PIP grants should be revised so that these grants only apply to vessels and rigs that are sourced in Canada or to vessels and rigs that maximize Canadian content. This change in the allocation of PIP grants would spur new construction in domestic yards and continue the development of specific expertise in the Arctic and offshore petroleum exploration and extraction field. This expertise would lead to future exports of specialized equipment and services for resource development in deep and ice infested waters. This proposal to restrict PIP grants would not be contrary to the General Agreement on Tariffs and Trade (GATT) because Article 19 of the GATT allows for special import barriers if a domestic industry is threatened.

Many of the fishing vessels employed on the east coast are over 100 ft. in length. Replacement programs, estimated by Fisheries and Oceans worth $5 billion in 1982 dollars over the next 10 years, are required. To continue to allow foreign trawlers to enter Canada duty-free will result in the loss of a significant level of shipyard employment and spin-off industrial benefits. This loophole must be closed.

Export orders sourced in Canada are eligible for subsidization through Export Development Corporation (EDC) financing, actually making it more attractive for foreign orders to be filled in Canada than domestic orders. We know of no other shipbuilding country that acts in this manner. Indeed, Britain, Japan, the United States, Belgium, France and other Organization for Economic Co-operation and Development (OECD) countries provide subsidized financing to domestic operators. In Canada, shipbuilding is considered like any other manufacturing industry and its complementary relationship to shipping, resource exploration and international practices are ignored. The one and only known exception was the EDC financing for the Husky/Bow Valley semi-submersible "Bow Drill 3", just completed at Saint John Shipbuilding. Even in this case Husky/Bow Valley were obliged to establish a legal entity in Bermuda to qualify for this government-assisted financing. This was tacit recognition by the government that EDC-type financing should be available for domestic orders. This should be the rule not the exception.

The Shipbuilding Industry Assistance Program (SIAP) was reduced from 20 to nine percent on July 1, 1980 and following a decision announced on January 6, 1983, will be eliminated altogether for ships not delivered by June 30, 1985. Because of time required to build medium to large-sized ships, the SIAP subsidy is essentially no longer available.

Most countries have either maintained or increased assistance to the shipbuilding industry in recent years. It would be reasonable to extend the nine percent SIAP for at least two more years, particularly since very few new SIAP funds for commercial orders have been committed in the last two years. Between December 31, 1981 and August 31, 1983, fewer than 5,000 GT of new commercial orders were placed in Canada.

Instead of commercial orders being placed in Canada, they are going out of the country at an alarming rate. Foreign-built vessels permanently registered in Canada during 1983 appear headed for a record high (see Table 3). Commercial orders normally account for 80 to 85 percent of all new orders placed in domestic yards. But commercial requirements are being met by foreign competitors and this trend must be reversed to achieve a permanent solution to the industry's problems. Changes in policy relating to temporary entry, PIP, foreign-built fishing vessels over 100 ft. and the SIAP would put Canada on a more competitive footing and better prepared to meet the challenge.

The benefits of a competitive shipbuilding industry cannot be overstated. Shipbuilding is a labour intensive activity that employs proportionately more persons than most other industries. Canadian shipyards are located in regions of traditionally high unemployment and shipyards are quite often the largest employers in the region. The spin-off benefits resulting from shipbuilding orders are far reaching and impact many areas of the country.

For the past two years, the inflow of foreign-built vessels into Canada has reached the point where the continued existence of a viable Canadian industry is threatened. These circumstances, we believe, require drastic measures. We therefore recommend that the economic aspects of importation should be considered when an application is made to register a foreign-built vessel in Canada for coasting and economic zone operations. If a similar ship can be built in Canada, registration should be denied, except in extraordinary circumstances.

There is currently an application before the National Energy Board (NEB) which includes the chartering of five liquified natural gas (LNG) carriers to transport LNG from B.C. to Japan. The ability to build and service the hull sections of the LNGs exists in Canada, although it might require some initial shipyard modification. There are two Canadian companies willing to undertake the work. The applicant's proposal for LNG ship construction would provide only 10 percent Canadian content whereas the proposal by Canadian companies in co-operation with General Dynamics of the USA, would include at least 81 percent Canadian content and 100 percent Canadian content for ship operation. These vessels could cost more to build in Canada, but this increase would be offset by the industrial benefits to Canadian industry. The Western LNG ship project could

generate $6.8 billion of net expenditures in Canada with a $18.7 billion gross domestic product increase and a $6.2 billion increase in federal and provincial tax revenues. This kind of marine project could be repeated many times in the coming decades. New manufacturing industries would be established to meet the variety of components required and older companies revived. The shipbuilding industry can be a major engine of our industrial strength as it is in Japan. Taxation policies in Japan have played an important role in fostering shipbuilding. We would suggest that government re-examine taxation policies with a view to providing greater incentives for the shipbuilding and allied manufacturing industries.

During recent years, CSSRA shipyards, with the support of Canada Employment and Immigration Commission (CEIC), have accelerated their activities in manpower planning and training. A CSSRA/CEIC Manpower Planning Agreement setting out commitments for plans and programs for training was signed in Vancouver on May 15, 1981. Subsequently, unit manpower planning agreements under the CSSRA/CEIC umbrella agreement have been signed to cover apprentice and supervisory training programs which are now in progress in most major shipyards. Computer-aided manufacturing (CAM) has been utilized for many years by the major shipyards and indeed Canadian use of computers for manufacturing and material control compares favourably with European and Japanese practices. Computer-aided design (CAD) is now being introduced by both shipyards and naval architects. Labour unions are, generally speaking, co-operating with management to promote training programs and working to reduce the problems arising from employing obsolete trade practices which impede productivity improvement. But we remain far from an ideal situation and this co-operation must be accelerated.

The association produced a booklet in 1983 entitled "Opportunities in Shipbuilding", in English and French, with the assistance of CEIC. It describes shipbuilding, ship repairing and allied industries, and provides a guide to the education and training of personnel. This resource document is available at CEIC offices across Canada and is an example of CSSRA initiatives to ensure a well-trained work force.

The Canadian shipbuilding industry is at a crossroads. To meet the challenge of tomorrow we must make the right choice today to ensure a

progressive, viable industry which will contribute to Canadian objectives. Industry and labour must co-operate and concentrate on productivity and government must provide the legislative and regulatory environment to enable shipbuilding to play a major role in the Canadian economy. The policies announced January 6 provide the basis to enable the shipbuilding industry to play this role. However, some refinements in the present environment are required. These are summarized in the following recommendations.

SUMMARY OF RECOMMENDATIONS

a) Bring the temporary entry rate of 1/120th per month of the value of the vessel into line with the permanent entry rate. As a minimum, the temporary entry rate should be doubled.

b) Require a time period of 90 days between when application is made for temporary entry and when the vessel is required.

c) Adjust PIP grants so that they are only available to companies that source in Canada or maximize Canadian content in their petroleum exploration and extraction equipment.

d) Eliminate duty-free status on foreign-built fishing vessels over 100 ft. entering Canada.

e) Make EDC-type financing available for Canadian-built ships.

f) Re-examine taxation policies with a view of providing greater incentives to the shipbuilding and allied industries.

g) Extend the SIAP at least two years, i.e. for ships delivered by June 30, 1987 instead of June 30, 1985.

h) In light of serious shortfalls in new commercial orders in Canada, the economic aspects of importing foreign-built vessels for coasting and economic zone operations must be considered. If a similar vessel can be built in Canada, registration should be denied, except in extraordinary circumstances.

FULL MEMBERS - MEMBRES PLENIERS

Allied Shipbuilders Limited
Bel-Aire Shipyard Limited
Burrard Yarrows Corporation
- Vancouver & Victoria Divisions
Collingwood Shipyards
Davie Shipbuilding Limited
Ferguson Industries Limited
Halifax Industries Limited
Marine Industries Limited
Marystown Shipyard Limited
Newfoundland Dockyard
Port Arthur Shipbuilding
Port Weller Dry Docks
Rivtow Industries Limited
Saint John Shipbuilding & Dry Dock Co., Ltd.
Vancouver Shipyards Co., Limited
Versatile Vickers Inc.

ASSOCIATE MEMBERS - MEMBRES ASSOCIES

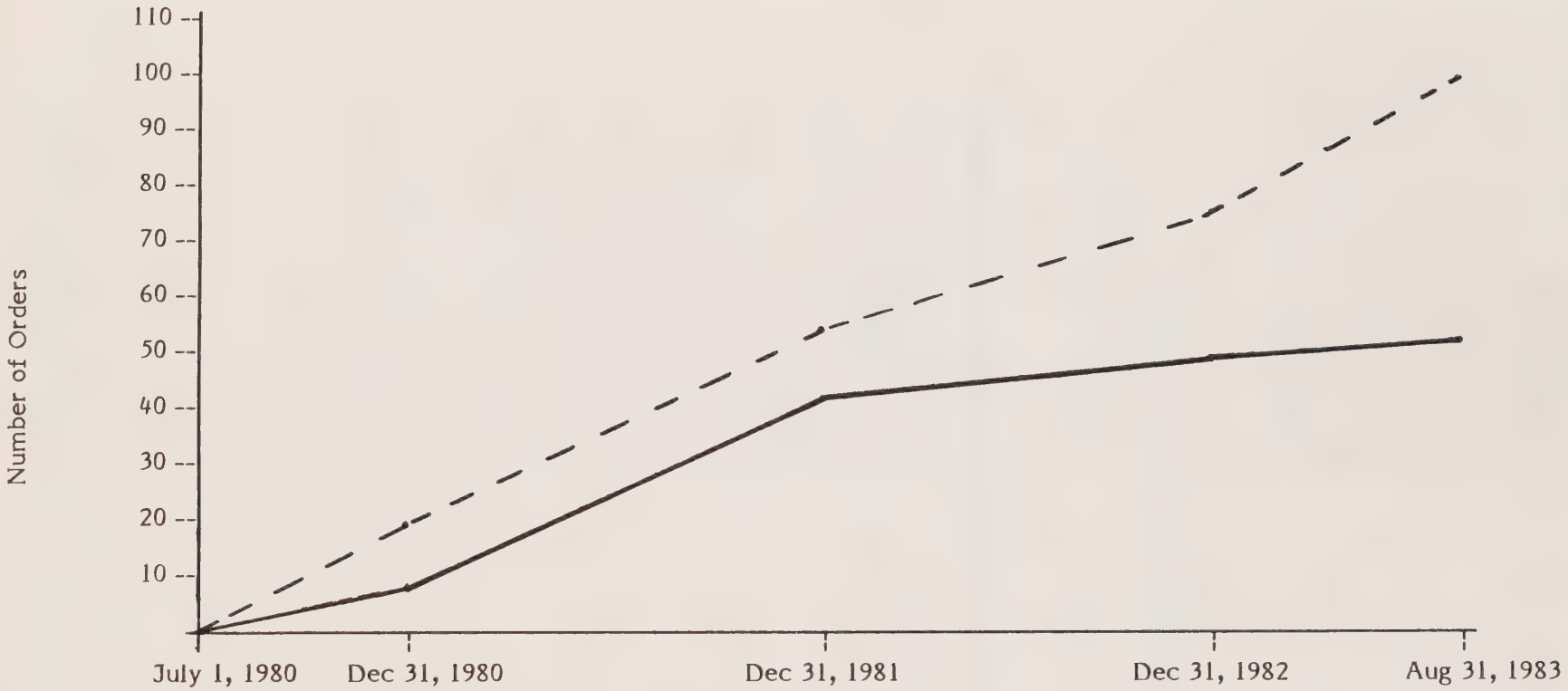
Breton Industrial & Marine Ltd.
Georgetown Shipyard Inc.
Herb Fraser & Associates Limited
Montreal Tankers Repairs Inc.
Purvis Navcon Shipyard Ltd.
Shelburne Marine Limited

ALLIED INDUSTRIES MEMBERS - MEMBRES INDUSTRIES CONNEXES

Acres Consulting Services Limited
Albery, Pullerits, Dickson & Associates
Alfa-Laval Limited
Algoma Steel Corporation, Limited
Robert Allan Limited
A&P Appledore Canada Ltd.
APE Canada Inc.
Arctec Canada Limited
Atlas Polar Co. Limited
Beldam Lascar Packing Ltd.
BG Marine
Bombardier Inc.
Brock Marine Ltd.
Burrard Iron Works Limited
Calcom Electronics Ltd.
Canadian General Electric
Canadian Marconi Company
Canadian Stone Marine Limited
College of Fisheries, Navigation, Marine Engineering & Electronics
Computing Devices Company
Crane Packing Company Limited
Cullen Canadian Inc.
DAF Indal Limited
Delaval Turbine Canada Limited
Devoe Marine Coatings of Canada Ltd.
Diamond Canapower Limited
Dowty Equipment of Canada
EG & G Sealol Canada
Eyretechnics Limited
GEC Diesels Inc.
German & Milne Inc.
Hamworthy Canada Limited
Peter S. Hatfield Limited
Hawker Siddeley Canada Ltd.
Hawker Siddeley Diesels & Electrics Ltd.
John T. Hepburn Limited
Hurum Engineering Ltd.
International Paints (Canada) Ltd.
Internav Limited
Joiner Systems JSC Canada Ltd.
KHD Canada Inc.
Lips NV Canada Limited
Litton Systems Canada Limited
Lo-Rez Vibration Control
MacGregor-Navire (Canada) Inc.
M.A.N.-GHH (Canada) Inc.
NORDCO Limited
Norris Warming Canada Limited
Osborne Propellers Limited
Pacific Winches Ltd.
Peacock Inc.
Pyramid Transit Products Ltd.
Racal-Decca Canada Inc.
Rolls-Royce (Canada) Limited
SCAN Marine Inc.
Siemens Electric Limited
Spar Aerospace Limited
Sperry
Stelco Inc.
Stephens-Adamson Limited
Stork Werkspoor Canada Limited
Ubique Riley Enterprises Limited
Union Carbide Canada Limited, Linde
Versatile Vickers Systems Inc.
Wagner Engineering Ltd.
Wormald Fire Systems Inc.

NEW COMMERCIAL ORDERS SOURCED IN CANADA AND NEW COMMERCIAL DELIVERIES FOREIGN-BUILT AND REGISTERED IN CANADA

(In Numbers)



Key: (In Numbers)

——— New Commercial Orders Sourced in Canada

----- New Commercial Deliveries Foreign-built and Registered In Canada

July 1, 1980 - December 31, 1980:	9
January 1, 1981 - December 31, 1981:	32
January 1, 1982 - December 31, 1982:	8
January 1, 1983 - August 31, 1983:	2
Total:	51

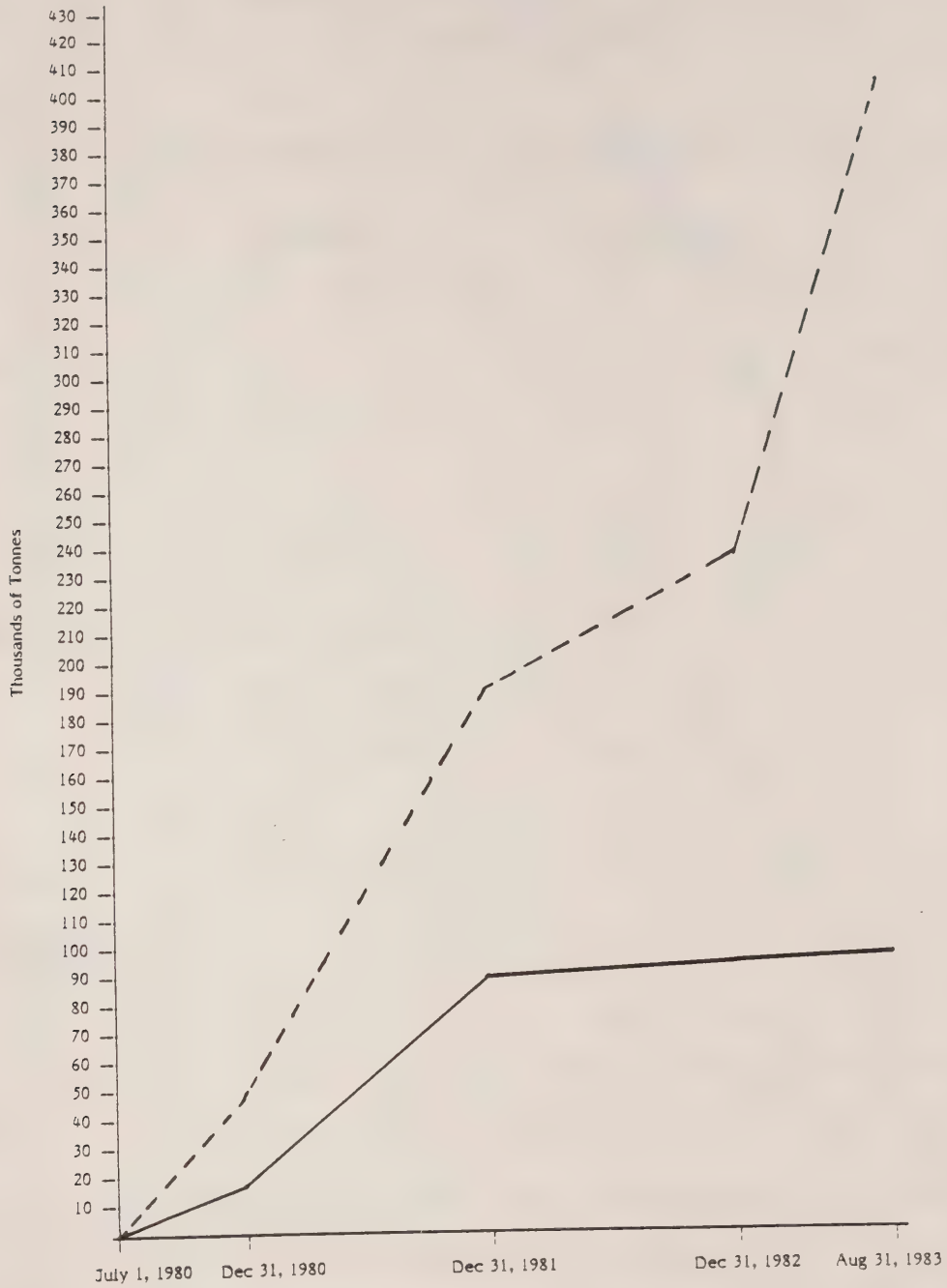
July 1, 1980 - December 31, 1980:	18
January 1, 1981 - December 31, 1981:	35
January 1, 1982 - December 31, 1982:	22
January 1, 1983 - August 31, 1983:	25
Total:	100

GRAPH 1

GRAPH 1B

NEW COMMERCIAL ORDERS SOURCED IN CANADA AND NEW COMMERCIAL DELIVERIES FOREIGN-BUILT AND REGISTERED IN CANADA

(In Thousands of Tonnes)



Key: (In Thousands of Tonnes)

——— New Commercial Orders Sourced in Canada

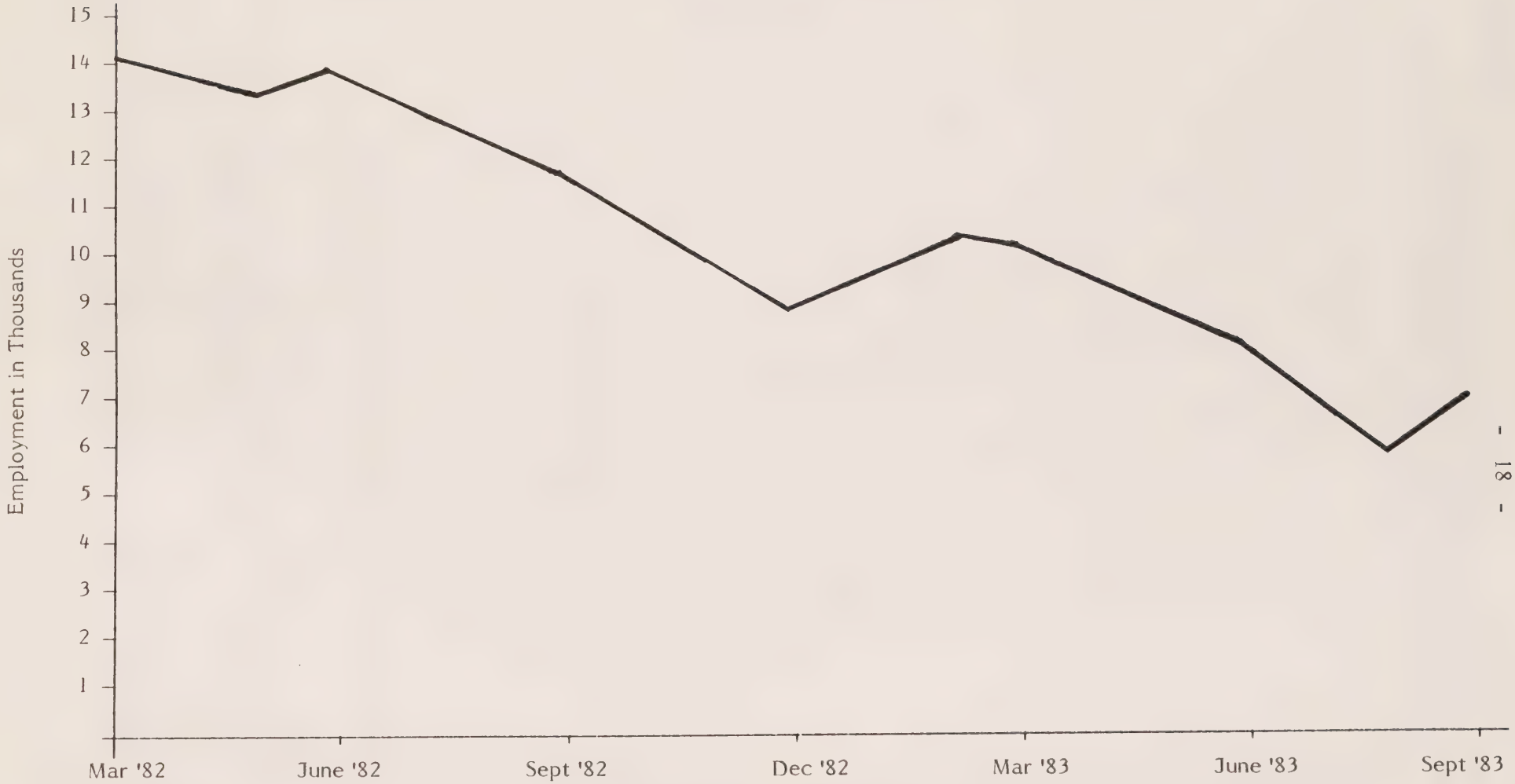
July 1, 1980 - December 31, 1980:	15.224
January 1, 1981 - December 31, 1981:	71.795
January 1, 1982 - December 31, 1982:	4.067
January 1, 1983 - August 31, 1983:	.870
Total	91.956

----- New Commercial Deliveries Foreign-built and Registered in Canada

July 1, 1980 - December 31, 1980:	46.949
January 1, 1981 - December 31, 1981:	143.711
January 1, 1982 - December 31, 1982:	48.750
January 1, 1983 - August 31, 1983:	167.382
Total	406.792

EMPLOYMENT LEVELS - CSSRA YARDS; MARCH 1982 - SEPTEMBER 1983

(In Thousands)



1982 Employment Levels: (In Thousands)			
March	14,071	August	12,167
April	13,482	September	11,419
May	13,256	October	9,871
June	13,724	November	9,521
July	12,456	December	8,499

1983 Employment Levels: (In Thousands)			
January	9,438	June	7,855
February	10,031	July	6,053
March	9,946	August	5,943
April	8,723	September	6,821
May	8,374		

GRAPH 2

TABLE 1 - VESSELS UNDER CONSTRUCTION OR ON ORDER IN MEMBER YARDS - BY TYPE 1982; 1982 & 1983 JANUARY - SEPTEMBER

(In Thousands of Tonnes)

Type of Vessel	1982 (December 31)			1982 (Sept. 30)			1983 (Sept. 30)		
		Tonnage			Tonnage			Tonnage	
	No.	Gross	Comp.	No.	Gross	Comp.	No.	Gross	Comp.
Government	--	---	---	1	5.9	14.2	9*	26.1	55.9
Tankers	--	---	---	--	---	---	--	---	---
Cargo:									
Barge	--	---	---	2	1.8	1.4	--	0.9	0.7
Others	1	0.4	0.5	1	.4	.5	1	---	---
Bulk Carriers	5	119.9	100.1	5	120.0	97.5	5	107.2	90.7
Tugs	2	0.2	0.9	5	0.8	4.2	3	0.6	3.0
Ferries	1	0.3	0.8	2	10.0	25.0	2	4.3	1.8
Fishing	--	---	---	1	1.8	5.3	--	---	---
Offshore Vessels	7	18.9	50.2	7	17.9	48.4	2**	2.1	6.3
***Offshore Drilling Rigs and Offshore Structures	--	---	---	--	---	---	1	24.2	72.6
Miscellaneous	4	47.0	129.1	7	62.6	176.0	--	---	---
TOTAL	20	186.7	281.6	31	221.2	372.5	23	165.4	231.0

* Comprises six type 1100 navaid icebreakers, one 72 m fisheries patrol vessel, one 69 m hydrographic vessel and one 25 m workboat.

** Comprises one supply vessel and one offshore safety standby.

*** Offshore vessels category has been divided in 1983 into offshore drilling rigs and offshore structures or offshore vessels to reflect more accurately types of floating equipment being built for offshore activity.

Notes: 1. Because of rounding, totals are not always exactly the sum of the parts.

2. Government refers to departmental federal government.

3. Compensated tonnage is the gross tonnage of a vessel adjusted to reflect manhours required in construction according to the O.E.C.D. formula and in some instances for specialized Canadian vessel types. From 1981, the factors have been further revised for Arctic Class vessels and barges.

Source: Members of the Canadian Shipbuilding and Ship Repairing Association

TABLE 2 - TEMPORARY ENTRIES; 1982 - 1983 (AUG.)

	1982		1983 (Jan - Aug)	
	FLAG	TYPE	FLAG	TYPE
East Coast Offshore	20 Canada 10 United States 10 Norway 2 Belgium 2 Spain 1 W. Germany 1 United Kingdom 1 Panama 1 foreign (not specified)	37 supply vessels 7 seismic research 3 rigs 1 coring vessel	22 Canada 15 United States 5 Belgium 5 United Kingdom 2 Panama 1 Norway 1 W. Germany	39 supply vessels 7 seismic research 5 drill ships
Arctic	1 Holland 1 Norway 1 Canada	1 dredge 1 fuel storage ship 1 drydock	2 Canada 1 Norway 1 Holland 1 Liberia 1 United States	2 barges 1 storage tanker 1 dredge 1 oil carrier 1 seismic research
Tanker	4 Japan 1 Norway 1 Greece 1 Liberia 1 foreign (not specified)	6 chemical tankers 2 oil tankers	3 Japan	3 chemical tankers
Cargo	6 W. Germany 4 United Kingdom 2 France 2 Liberia 1 Malaysia 1 Norway 1 Bermuda 1 Canada 1 Panama	14 bulk carriers 5 general cargo	1 Panama 1 W. Germany 1 Sweden 1 Canada 1 Bermuda 1 U.S.S.R. 1 Greece	5 bulk carriers 2 general cargo
Barge	18 United States	18 barges	11 United States 1 Canada	12 barges
Ferry	1 Sweden	1 passenger/auto ferry	3 Canada	3 passenger/auto ferry
Tug	3 United States	3 tugs	4 United States	4 tugs
Miscellaneous	6 United States 1 Panama 1 United Kingdom 1 foreign (not specified) 1 Norway	2 cable layers 2 dredges 2 scows 2 workboats 1 launch 1 seismic research 1 drydock	6 United States 1 United Kingdom 1 Denmark	3 scows 1 research vessel 1 sailboat 1 submersible 1 supply vessel (in Victoria harbour) 1 geological survey

TABLE 3 - FOREIGN-BUILT VESSELS REGISTERED IN CANADA BY TYPE 1979 - 1982
1983 JANUARY - SEPTEMBER

Type Of Vessel	1979		1980		1981		1982		1983 (Sept. 30)	
	No.	Gross Tons	No.	Gross Tons	No.	Gross Tons	No.	Gross Tons	No.	Gross Tons
Tankers	--	---	--	---	1	1,182	--	---	2	1,454
Cargo:										
Barges	5	12,712	13	38,333	10	52,653	1	8,235	2	6,407
Other	8	24,937	6	23,977	9	44,065	2	9,643	2	5,395
Bulk Carriers	--	---	--	---	--	---	--	---	3	64,644
Tugs	7	2,299	3	1,359	1	560	4	3,960	--	---
Ferries	1	513	--	---	--	---	1	280	1	147
Fishing	11	5,827	8	6,773	3	1,539	5	3,321	--	---
Offshore Vessels	--	---	--	---	6	9,420	7	22,011	13	31,556
Offshore Drilling Rigs and Offshore Structures	--	---	--	---	--	---	--	---	5	68,217
Miscellaneous	4	14,780	1	107	5	34,292	2	1,300	2*	1,209
Total	36	61,068	31	70,549	35	143,711	22	48,750	30	179,029

* Includes 1 survey vessel and 1 steel yacht

Source: Transport Canada "Steam and Motor Vessels Registered in Canada"

Prepared By: Canadian Shipbuilding and Ship Repairing Association